Small Business Administration

Descriptions For
Small Loan Programs

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A. Section 7(m) Direct Micro Loan Program

The direct Micro Loan program provides loans to Micro Loan Intermediaries or Micro Lenders, who in turn provide loans to Micro Loan borrowers. To qualify for the Micro Loan program, lenders must be non-profit, provide counseling and educational assistance. Loans are made for machinery, equipment, furniture, fixtures, inventory, supplies and working capital. The Intermediaries can qualify for loans of up to $750,000 during the first year they participate in the program and a cumulative of $3.5 million in subsequent years. Intermediaries can disburse loans to Micro Loan borrowers ranging from $100 to $35,000 (increased from $25,000 in 2000).

Loans from the SBA to the intermediaries have a 10-year term with a one-year grace/deferment period. No interest or principle payments are scheduled during the grace period. Interest is accrued during the grace/deferment period and is spread evenly over the remaining life of the loan. Monthly payments of principle, interest, and deferred interest are scheduled over the remaining life of the loan after the initial grace/deferment period.

Interest rates to Intermediaries are based on the 5-year Treasury Bill Rate with a rate reduction incentive or buy-down. The interest rate buy-down is based on an Intermediary's average loan amount in their portfolio. If the average loan amount is $7,500 and under they qualify for a two-percent buy-down. If they maintain an average loan amount over $7,500, they qualify for a one-and-a-quarter-percent buy-down. The initial buy-down is determined on the first anniversary date of the note approval. After that, a review of the Intermediary's portfolio is performed annually to determine adjustments to the buy-down rate.

Each Intermediary must establish a Micro Loan Revolving Fund (MRF) and a Loan Loss Reserve Fund (LLRF). The MRF is an interest bearing deposit account into which an Intermediary deposits the proceeds from SBA loans, contributions from non-Federal sources, payments from Micro Loan borrowers, and makes payments to SBA. The LLRF is a separate account that serves as a reserve to make up for any shortages due to borrower delinquencies. The minimum amount the intermediary must maintain in the LLRF is equal to 15 percent of the aggregate outstanding debt owed to the intermediary by the Micro Borrowers. Five years after an intermediary's approval as an SBA Micro Loan Intermediary, the intermediary may request a reduction in their LLRF account if their annual loss rate during the preceding five years is less than 15 percent and no other factors exist.

The SBA does not charge any fees of the Micro Lenders for participation in the Micro Loan program. The Intermediaries may charge borrowers fees of up to $100 per year. The rates that Intermediaries can charge borrowers is limited to 8.5% over the cost of funds if their average loan amount is less than or equal to $7,500 and 7.75% over the cost of funds if their average loan amount is greater than $7,500.

B. New Markets Venture Capital (NMVC)

The New Markets Venture Capital (NMVC) program is modeled after the Small Business Investment Company (SBIC) program, but with a specific mission to promote economic development and the creation of wealth and job opportunities in low-income geographic areas. The SBA intends to achieve these objectives through financial assistance to newly formed NMVC companies, or to existing Specialized Small Business Investment Companies (SSBICs). However, unlike the SBIC program, the SBA doesn't license the NMVC companies. Instead, the SBA designates and enters into a participation agreement with each NMVC company that details, among other things, the specific low-income areas that it will serve, how it will serve them, what results it expects to achieve, and how its success will be measured.

The SBA's financial assistance supplements a NMVC company's own capital through guarantees of debentures issued by the company in a face amount of up to 1.5 times its capital. These debentures have a term of up to 10 years from the date of draw-down and are issued at a discount. Interest for years 1-5 is paid up front in the form of a discount; interest only is payable for years 6-10; and principal is due at the end of year 10. The SBA arranges "just-in-time" funding for the debentures under procedures similar to those used in the SBIC program. The debentures are priced at a current market rate for comparable U.S. Government Treasury securities plus a premium. The debentures are pre-payable without penalty after one year. There are no SBA fees associated with these debentures.

In addition to financial assistance, the SBA may also match the resources that the NMVC company has raised for operational assistance (whether in cash or in-kind) with a grant. The NMVC company must use the grant funds and matching resources to provide marketing, management, and other operational assistance to the businesses in which it invests or intends to invest. The operational assistance should increase the likelihood of companies receiving financing by providing them with resources prior to investment; and should also supplement the companies available resources, improving their odds of success.

C. Section 502 Local Development Companies (LDC) Guaranteed Loan Program

Section 502 (Local) development companies are actually one part of the Development Company program which is a grouping of four separate and distinct lending programs (Sections 501, 502, 503, and 504) defined under Section 7(a) (13) of the Small Business Act and Title V of the Small Business Investment Act. In general, all four programs consist of loans made through development companies for the purpose of fostering economic development in both urban and rural areas. Section 501 and 503 loans were all disbursed prior to the start of credit reform and therefore accounting transactions for those programs are all within the Business Loan Liquidating account.

LDCs are corporations chartered under any applicable state corporation law to operate in a specified area within a state. The LDC cannot be owned or controlled by a public body, such as state, city, county, etc. They finance debt and equity, organize management seminars, and give technical assistance. The purpose of a 502 loan is to finance plant construction, conversion, or expansion, including the acquisition of land, existing buildings and leasehold improvements. By regulation, plant construction includes the acquisition and installation of machinery and equipment.

A 502 loan can only be used by the borrower to assist one or more identifiable small business concerns (SBC) and for a sound business purpose approved by the SBA. Loans made by the SBA are limited to $750,000 for each identifiable SBC.

The Section 502 program's loan making activity was discontinued in 1995. There is currently just under $10 million in outstanding principal for loans disbursed from 1992 through 1995.

D. SBIC Direct Preferred Stock and 4 Percent Fee Loan Programs

Under the Direct Preferred Stock program, the SBA purchased (at par value) cumulative, non-voting preferred stock issued by Section 301 (d) companies with a three percent dividend (cumulative; based on par value). The dividends paid to SBA were, in effect, a substitute for interest on the direct loans disbursed (preferred stock purchased). There are no scheduled principal payments because all loans will repay the full amount of the original principal at maturity.

The amount of preferred stock purchased by SBA could not exceed 100 percent of the capital if it was less than $500,000 or 200 percent if the capital was in excess of $500,000. The amount of preferred stock could not exceed 100 percent of the SBIC's portfolio of "Qualified Investments" (defined in §107.205(d)(2) of the regulations). The portfolio of qualified investments must be maintained at not less than the amount of preferred stock held by SBA in excess of 100 percent of the SBIC's private capital.

The Four-Percent Fee Loan program was designed for unincorporated Section 301(d) Licensees with participating security assets. Under this program, licensees were required to provide for distributions to SBA on a preferred and cumulative basis at an annual rate of four percent on the entire amount of SBA's capital distribution (with no adjustments other than those reflecting prior returns of capital), accruing from the date of issuance to the date of distribution, both inclusive. SBA was paid from retained earnings available for distribution. In the event SBA received less than four percent in any fiscal year, the deficiency became payable on a preferred basis from subsequent retained earnings available for distribution, without interest. Before any allocation or distribution (other than SBA) is paid, all accumulated and unpaid distributions on preferred limited partnership interests issued to SBA had to be paid. There are no outstanding loans.

There are currently eighteen direct Preferred Stock loans outstanding with an outstanding principal balance of $27 million. This program has four cohorts, 1992 through 1995, with total disbursements of $45 million dollars.

E. Handicap Assistance Direct Loan (HAL) Program

The Handicap Assistance Program offered loans in two categories: Handicapped Assistance Loans to nonprofit organizations (HAL-1) and Handicapped Assistance Loans to small business concerns owned, or to be owned, by handicapped individuals (HAL-2).

HAL-1 organizations had to employ handicapped individuals for not less than 75 percent of the man-hours required for the production of goods and services. HAL-1 loans were for working capital, purchase of machinery, equipment, supplies, materials, debt repayment allowing for longer terms, and purchase or construction of a building. HAL-2 loans were to assist handicapped individuals in establishing, acquiring or operating an eligible small business concern

Loans could not exceed $350,000 and had an administrative ceiling of $100,000 to $150,000. Fees and charges were the same as the 7(a) program. Loan terms could be up to 15 years with grace periods when only interest payments were required. Loans were collateralized with equal type, amount, and value which, considered with other factors, such as character and ability of management and prospective earnings, afforded the required assurance of repayment.

There are currently five active loans with a total outstanding principal balance of $416,000. This program has four cohorts, 1992 through 1995, with total disbursements of $33.9 million dollars.

F. Section 8(a) Small Business Direct Loan Program

The 8(a) Participant Loan Program was administered by the Associate Administrator of Minority Enterprise Development (MED). The ceiling for this direct loan program was $150,000 but the Associate Administrator was permitted to raise the ceiling to $750,000. The interest rate was set to one percent less than on a regular direct loan. The regulation required that the SBA subordinate its security interest on all collateral to other debt of the applicant. The loan proceeds were not allowed to be used for debt refinancing, but instead were to be used for working capital for a manufacturing concern.

The guidelines stated that the SBA's share of such loans would not exceed $100,000 for a term not to exceed 15 years. Participation by the private sector was be encouraged. It was the purpose of this program to assist in the establishment, preservation, and strengthening of small business concerns, and improve the managerial skills employed in such enterprises, with special attention to small business concerns located in urban or rural areas with high proportions of unemployment or low-income individuals or owned by low-income individuals.

There are no outstanding active loans for the program. This program has three cohorts, 1992 through 1994, with total disbursements of $10.6 million dollars.

G. Veterans Assistance Direct Loan (Veterans) Program

The Veterans Assistance Loan Program was a direct loan program that was designed for small business at least 51 percent owned by veterans. Management and daily operations of the business must be directed by one or more of the veteran owners whose veteran status was used to qualify for the loan. Loans were available only if private sector financing and guaranteed loans were not available. This program has no active outstanding loans.

To be considered an eligible veteran, an individual must have been a Vietnam-era veteran who served for a period of more than 180 days between August 5, 1964 and May 7, 1975 and were discharged other than dishonorably or a disabled veterans of any era with a minimum compensable disability of 30 percent.

There are no outstanding active loans for the program. This program has three cohorts, 1992 through 1994, with total disbursements of $41.1 million dollars.

H. Economic Opportunity Direct Loan (EOL) Program

The Economic Opportunity Loan program was designed to issue loans to assist in the establishment, preservation, and strengthening of small businesses and improve the managerial skills employed in such enterprises. It was designed with special interest to small business concerns for either areas with high proportions of unemployed or low-income individuals, or small businesses owned by low-income individuals. The loans could not exceed $100,000 with a term not to exceed 15 years.

There are only two outstanding loans in the portfolio with a total outstanding principal balance of $108,000. This program has three cohorts, 1992 through 1994, with total disbursements of $31.2 million dollars.

I. Section 7(m) Guaranteed Micro Loan Program

There are no Guaranteed Mirco Loans with an outstanding principal balance. The Guaranteed Micro Loan program assisted women, low income individuals, minority entrepreneurs, and other small businesses which needed small amounts of financial assistance, with short-term, fixed interest rate loans of up to $35,000. The Small Business Administration (SBA) guaranteed 100 percent of the loans from the banks to the intermediaries. The intermediaries then make loans to borrowers. The SBA also made grants to the intermediaries and other qualified nonprofit entities to be used for marketing, management, and technical assistance to the program's target population.

Most types of small for-profit businesses were eligible for the program. Micro Loans were used for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery, and/or equipment, but could not be used to pay existing debts or purchase real estate.

The last outstanding Guaranteed Mirco Loan matured in February, 2007. This program has six cohorts, 1996 through 2001, with total disbursements of $12.6 million dollars.

J. SBIC 301(d) Guaranteed Loan Program

Specialized Small Business Investment Companies (SSBICs) provided equity capital and subordinated loans to small businesses. They are privately owned and are licensed and regulated by the SBA. SSBICs are chartered to invest exclusively in businesses owned and operated by socially or economically disadvantaged persons, including women-owned, minority-owned, and Vietnam era veteran-owned firms. An SSBIC can also provide management assistance to companies it finances.

Originally a Section 301(d) licensee, like any other SBIC, was required to be incorporated as a for-profit corporation. In 1972, Congress permitted the incorporation and operation of section 301(d) licensees on nonprofit basis. Preference was given to businesses that provided training and employment opportunities for the unemployed or the underemployed residents of economically depressed areas.

There are no active loans in this program. This program has five cohorts, 1992 through 1996, with total disbursements of $60.6 million dollars.